

Competition legislation and intellectual property rights

South Africa was given a new competition regime when the major part of the Competition Act no. 89 of 1998 was put into effect on 1 September 1999. Modelled on the British and Canadian laws, the Act applies to all economic activity within South Africa, including economic activity involving intellectual property rights.

The Act aims to regulate inter alia the following categories of agreements or practices which may involve IP rights:

- restrictive horizontal practices
- restrictive vertical practices
- abuse of a dominant position.

Restrictive horizontal practices

Qualified prohibition:

An agreement or concerted practice is prohibited if it is between parties in a horizontal relationship and it has the effect of substantially preventing or lessening competition in a market, unless a party to the agreement or practice can prove that the technological, efficiency or other pro-competitive gain outweighs the anti-competitive effect. It will be noted that the prohibition is not an absolute one : an onus is placed on a party to the agreement, which will generally be the IP owner, to prove the pro-competitive gain that will result from the agreement or practice. Technological or efficiency advantages can qualify as pro-competitive gains.

It has been pointed out that this provision is very wide and that the normal exploitation of an intellectual property right would in many cases contravene the letter of the law. For example, it is not unusual for a patent right to be exploited by way of an exclusive licence granting the licensee manufacturing or

distribution rights to the exclusion of others; or for a patent right to be enforced jointly by the patentee and an exclusive licensee (as permitted under the Patents Act). Such practices could be found to contravene this prohibitory provision.

Likewise, where one or more registered users are appointed under a registered trade mark, to the exclusion of all others (as permitted under the Trade Marks Act), or where the registered trade mark owner and a registered user together institute proceedings against an infringer (as envisaged by the Trade Marks Act), this could be found to constitute contraventions of the prohibitory provision.

To avoid such contravention, the patentee or trade mark owner will have to show that the technological or efficiency or other pro-competitive gain will outweigh the anti-competitive effect. Criticism has been expressed that the primary burden to show a pro-competitive gain should be placed on the IP owner. At the very least, the existence of a recognised IP right should provide a so-called pro-competitive bias in favour of the IP owner.

Absolute prohibitions:

An agreement or concerted practice is also prohibited if it involves any of three specified restrictive horizontal practices, namely

- directly or indirectly fixing a purchase or selling price or other trading condition;
- dividing markets by allocating customers, territories or specific types of goods or services; or
- collusive tendering.

These specific restrictive horizontal practices are absolutely prohibited, and no provision is made for a weighing-up of any possible pro-competitive gain which may result from such a practice where an IP right is involved.

Again the customary methods whereby IP rights may be exploited may in many cases be found to contravene the letter of the law. For example, where a patentee or registered trade mark owner endeavours to diversify and/or to empower local businesses by licensing different licensees in respect of different territories within the country; or by licensing different licensees in respect of different categories of goods or services, such conduct will constitute contraventions of these absolute prohibitions. Clearly this apparent conflict is not in the interest of business development and will have to be resolved.

Restrictive vertical practices

Qualified prohibition:

An agreement between parties in a vertical relationship is prohibited if it has the effect of substantially preventing or lessening competition in a market, unless a party to the agreement can prove that the technological, efficiency or other pro-competitive gain outweighs the anti-competitive effect. Again the general prohibition is not absolute : the onus is placed on a party to the agreement (again probably the IP owner) to show that the pro-competitive advantages outweigh the anti-competitive effect.

Absolute prohibition

The practice of resale price maintenance is specifically and absolutely prohibited; however, a minimum resale price may be **recommended** provided it is clear that the recommendation is not binding and the words 'recommended price' appear on the product next to the stated price.

Abuse of dominance

A firm which is dominant in a market is prohibited to-

- charge an excessive price to the detriment of consumers;
- refuse to give a competitor access to an essential facility when it is economically feasible to do so;
- generally engage in an exclusionary act if the anti-competitive effect outweighs its technological, efficiency or other pro-competitive gain;
- engage in specific exclusionary acts, such as requiring a supplier or customer not to deal with a competitor; refusing to supply scarce goods to a competitor where it is economically feasible to do so; selling goods or services below their marginal cost; selling goods or services on condition that the purchaser must also buy unrelated goods or services - unless the firm concerned can show technological, efficiency or other pro-competitive gains which outweigh the anti-competitive effect.

Again it will be noted that, in the case of the specifically listed exclusionary acts, the primary onus of showing a pro-competitive gain is placed on the party accused of abusing a dominant position. And again it is likely that IP owners exploiting their rights will frequently fall foul of some of these exclusionary acts. For example, a patentee who orders from a manufacturer a supply of patented components, legitimately requiring the manufacturer not to supply such components to a competitor (in accordance with the exclusive rights granted by the patent), may be found to be contravening the prohibition. Likewise, a patentee who refuses to supply a patented component to a competitor where such components constitute 'scarce' goods, could be committing a contravention.

Exemptions

The manner in which the Act seeks to resolve the apparent conflicting interface between IP rights and competition principles, is to provide for exemptions to be granted. The Act provides that application may be made to the Competition Commission to exempt an agreement or a practice or a category of agreements or practices. In particular provision is made for the exemption of agreements or practices which relate to the exercise of a right acquired or protected in terms of a number of specified intellectual property statutes, including the Patents Act, Trade Marks Act, Designs Act and Copyright Act.

The present wording of the IP exemption provision seems to require individual applications for exemption to be lodged by individual IP owners. Bearing in mind that many thousands of patent and trade mark applications are filed in South Africa annually (about 4 000 patent applications and about 26 000 trade mark applications during 1999), and assuming that even a small percentage of those applicants will require exemptions, it is expected that the Competition Commission may soon find itself inundated with applications for exemption. It has been proposed that the system of block exemptions (as existing in Europe) should be introduced. However, at present Government does not seem to be prepared to commit itself to the principle of granting block exemptions.

An amendment of the Competition Act is currently being piloted through Parliament. However, it is unlikely that these particular aspects will be changed.

Complaints

The Act provides for a complaint against a prohibited practice to be initiated by the Commissioner, or to be submitted to the Competition Commission by a complainant.

A Competition Tribunal is established with jurisdiction to grant exemptions, authorise or prohibit mergers, and to adjudicate on prohibited conduct including to hear complaints against a prohibited practice. A Competition Appeal Court with a status similar to that of a High Court has jurisdiction to consider appeals from, or reviews of, decisions by the Competition Tribunal.

A first decision has been handed down by the Competition Tribunal in an IP matter, in the case of **DW Integrators CC v SAS Institute (Pty) Ltd** Case no. 14/IR/Nov99.